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SUBJECT: SCENESETTER FOR THE VICE PRESIDENT'S VISIT TO
COSTA RICA

SUMMARY:

¶1. (SBU) Embassy San Jose warmly welcomes Vice President and Dr. Biden and their delegation, and provides this broad overview as requested by the OVP. The Arias administration has made progress on key elements of its 2006-2010 agenda, most notably entering the U.S.-Central America-Dominican Republic Free Trade Agreement (CAFTA) into force on January 1. The GOCR should now be freer to address other priorities, such as rising domestic security problems; decrepit national infrastructure, including the education and health care systems; and the global financial crisis. The protracted fight to complete CAFTA has taken its political toll, however, and with pre-campaigning already under way for the 2010 national elections, President Arias and his team still face many challenges.

¶2. (SBU) On foreign relations, the GOCR (like Costa Ricans in general) hopes the new U.S. administration will bring more understanding, positive attention and perhaps assistance to Latin America. The GOCR welcomes Merida Initiative security assistance, but worries that USG focus on Mexico and Colombia will push traffickers into Central America. True to form, Arias has remained active on the global stage, pursuing disarmament, environmental and reform initiatives in the UNSC, recognizing China and most recently, upgrading relations with Cuba. END SUMMARY.

HOPES FOR THE NEW U.S. ADMINISTRATION,

¶3. (SBU) Despite differences on some issues (e.g., Iraq and Guantanamo), Costa Rican-U.S. relations remain very good. Costa Ricans like Americans and America, but they believe recent administrations have given short shrift to relations with Latin America. They hope to see a shift in policy in the Obama administration, including more understanding, more (positive) attention and perhaps more assistance from the U.S. government. However, there may be inflated public (and perhaps governmental) expectations about the speed and depth of the "change" the U.S. administration will bring to policy in this region.

¶4. (U) President Arias and his administration are thrilled to be hosting your visit. Arias wants the region, and especially Costa Rica, to be "taken seriously" by the United States, as he noted in a February speech to the Brookings Institute. In the same remarks, he called for a "nuanced (U.S.) engagement" with Latin America, as the core of a new "good friend" policy in the hemisphere, focused on "mutual benefit, mutual understanding and mutual respect." Arias described the nations of the hemisphere as "sisters" that "have not yet learned how to be neighbors." In the words of OAS Secretary-General Jose Miguel Insulza, the Arias government hopes for a new USG commitment to develop policy WITH the region and not just FOR the region.

INCLUDING ON CLIMATE CHANGE

¶5. (SBU) Enthused by the Obama Administration's early signals on climate change, Central American leaders, including Arias, hope the U.S. will agree to launch a regional environmental initiative focused on climate change, possibly including the Caribbean countries. At the behest of his environment minister and the chairwoman of the Costa Rican national legislature's Environment Committee, President Arias reportedly hopes to include this as an agenda item for the Vice President's March 30 encounter with regional leaders. (COMMENT: Central Americans are increasingly anxious for stronger U.S. engagement in the region on climate change, particularly on adaptation. In their view, a meaningful USG response could help counter growing European efforts to shape the region's outlook in the run-up to the December 2009 climate change negotiations in Copenhagen. END COMMENT.)

ARIAS ADMINISTRATION: CHALLENGES MET; CHALLENGES AHEAD

¶6. (U) CAFTA has been the Arias administration's toughest political challenge (and biggest victory) to date, pushing aside most of Arias' other initiatives during its protracted and difficult approval process. In October 2007, CAFTA was narrowly ratified in the country's first-ever national referendum (52% yes, 49% no). The national legislature then wrestled for over a year to enact 13 implementing bills, with the 14th to be approved in 2009. After two extensions granted by its CAFTA partners, Costa Rica entered into

force on January 1, 2009. The major political opposition leader and anti-CAFTA advocate has not given up, however. He is leading a regional campaign to "renegotiate" CAFTA, and has contacted like-minded Members of Congress to enlist support.

17. (SBU) With CAFTA in force, the Arias administration is turning to other priorities such as improving domestic security and law enforcement, rebuilding national infrastructure, repairing the broken education and health care systems, and improving the business climate. With 15 months years remaining in his administration; considerable political capital expended in the bruising CAFTA fight; controversies lingering about the use of Taiwanese aid, the terms of a subsequent bond deal with China and other issues; three cabinet ministers resigning over different controversies and maneuvering underway for the 2010 elections, Arias may find it increasingly difficult to complete the rest of his agenda.

18. (U) Arias' public support remains strong, however. The January 2009 CID-Gallup poll showed 52% of those surveyed rating his performance as good or very good, a high water mark for governments this deep into its term. Analysts attribute this primarily to his highly-visible efforts to respond quickly to the damage cause by the January 8 6.2 magnitude Cinchona earthquake near San Jose, which killed 25, injured 100 and left hundreds homeless.

COSTA RICA: STUDY IN CONTRASTS

19. (U) The Arias administration's policy goals have remained consistent with the four pillars of USG policy in the hemisphere: prosperity, security, opportunity and democracy. The link between stable democracy and economic opportunity for the average citizen continues to make Costa Rica an example for the region. However, the country remains a study in contrasts.

110. (U) Costa Rica's historical investment in education and health care rather than in national defense, coupled with economic policies that have generally favored free enterprise and globalization, have helped create a lower level of poverty (approximately 18% in 2007) than the norm for Latin America. Costa Rica still has the most prosperous economy in Central America, with a 2008 gross domestic product per capita of \$7000 (compared to \$3300 for the region), but Panama is almost at the same level and regional leaders Chile and Mexico are some distance ahead.

111. (U) On the other hand, the World Bank's 2009 "Doing Business" index ranks Costa Rica 117th out of 181 countries overall (down from 99th in 2006), and 24th out of 31 in the region. Costa Rica ranks 123rd for ease of starting a business, 164th for protecting investors, and 152nd for paying taxes. In general, Costa Rica's cumbersome and hyper-legalistic bureaucracy impedes business development and investment.

112. (U) The average pupil tenure in the public system is only 7.3 years. Highway accidents on the nation's decrepit road system are a leading cause of violent death (only 24 percent of the national road system is classified as in "good" condition). Costa Rica is indeed green, but it is not entirely clean. Managing waste stream issues is increasingly a challenge as tourism sites and communities develop and expand. On a national basis in 2007, less than four percent of the country's sewage output was treated under operator control.

113. (U) Costa Rica may not be highly dangerous, but it is no longer safe. Crime has been steadily increasing in recent years, becoming a major concern (along with the state of the economy) as measured in opinion polls. Crime rates are lower in Costa Rica (homicide of 10/100,000) than elsewhere in the region (36/100,000), but higher than in the United States, and rising at double-digit rates.

114. (U) The judicial system is broken. In 1995, the national conviction rate for robbery cases was 25 percent. By 2007, there were six times as many robberies, but only a two percent conviction rate. On average from 1997-2007, only 10 percent of all court cases were resolved at all. Over the last three years, Embassy San Jose has annually replaced more stolen passports than any other U.S. diplomatic mission around the world. This is an indication of the rising theft problem, especially in tourist areas and the well-populated central valley around San Jose.

THE ECONOMY: GOOD BASICS, BUT 2009 MAY BE TOUGH

115. (U) Economic growth has slowed due to the world fuel price and financial crises. Real GDP growth for 2008 will be approximately

4.0 percent, less than half of the 8.8 percent rate in 2007. Unemployment has inched upwards to 6.0 percent in 2009, but inflation reached 13.9 percent at the end of 2008, well above the 9.4 percent rate in 2006. Exports continue to push growth, with traditional agricultural products (coffee, pineapple, sugar cane and bananas) doing fairly well. Value added goods and services are also doing well, including microchips from Intel (which generates 20 percent of Costa Rica's export earnings alone), and regional back-office operations by Western Union, Proctor and Gamble and HP. Costa Rica attracted the second largest amount of FDI in the Caribbean basin region in 2007, after Mexico: \$1.8 million (per UN statistics). The U.S. is Costa Rica's largest trading partner; two-way trade totaled \$8.5 billion in 2007.

116. (U) However, the government and private sector worry about the impact of the U.S. and global financial crisis, especially on the tourism sector (still a major earnings generator and job creator), the real estate industry (which depends heavily on U.S. and Canadian investors and retirees), and the related construction industry. All three are turning down. Increased trade ties (eventually) may help Costa Rica ride out the crisis. In addition to CAFTA, the Arias administration is has comleted six of seven negotiation rounds for the Cntral American regional trade/association negotiatons with the EU, has started trade negotiations wth China and Singapore in

early 2009, and is a member of the regional Pathways to Prosperity group established during the UN General Assembly in September 2008.

SECURITY: DOING A LOT WITH A LITTLE

¶17. (U) Despite limited security resources, Costa Rica continues to be a reliable partner against transnational drug trafficking, seizing nearly 22 metric tons of cocaine, 4.8 tons of processed marijuana and significant quantities of other drugs, as well as millions in seized assets in 2008. Under a bilateral maritime agreement signed in 1999 (the first in the region) U.S.-Costa Rican joint narcotics operations seized most of the total cocaine interdicted in.

18 (SBU) Unfortunately, these record seizures reflect the tremendous narcotics flow through the region. The USG estimates that approximately 60-75 percent of the drug flow from South America to Mexico and the United States runs through Costa Rican territory or national waters. At any one time, mostly Mexican and Colombian traffickers may stockpile as much as 15-20 metric tons of cocaine in Costa Rica, using the country as an "intermodal hub" for onward drug shipments north. Illegal migrants, especially from China, are also smuggled via land or sea through Costa Rican territory.

BUT MORE ASSISTANCE IS NEEDED

¶19. (U) Although Costa Rica is economically-developed enough to have "graduated" from most forms of USG assistance it still needs help. From 2004 to 2007, overall USG assistance, including regional programs such as CAFTA trade capacity building and a large debt-for-nature swap under the Tropical Forest Conservation Act, fluctuated annually from \$27 million (FY 2004) to \$5.9 million (FY 2007).

¶20. (SBU) U.S. security assistance is vital to strengthen Costa Rica's ability to fight domestic and regional threats, especially as the nexus between drug trafficking and domestic crime becomes clearer. The Costa Rican coast guard told us that a four-ton maritime seizure of cocaine in July 2008 would not have been possible without new, USG-provided radios and navigation aids. Marking a significant departure from his past attitude, President Arias himself asked the Embassy for help in early 2008, but security funding (until the Merida Initiative) has been problematic. With the right assistance and training, Costa Rica can serve as a regional model for combating drug trafficking, money laundering and violent domestic crime without a military.

THE MERIDA INITIATIVE IS IMPORTANT

¶21. (SBU) Under the multi-year Merida Initiative, Costa Rica will receive \$4.3 million in security- and law enforcement-related funding in FY08 funds, plus a share of \$14.9 million in regional programs. In FY 2009, Costa Rica should receive another \$9.4 million in bilateral assistance. The majority of the FY 2008 Merida package for Costa Rica will help modernize and refurbish the coast

guard, with healthy amounts of assistance also going for the national police, improved border inspection equipment and training, a regional fingerprint system, a regional center for drug crime intelligence, firearms destruction and improved prison management. The Arias administration says it needs still more U.S. and international help, however, and worries that the U.S. focus on Mexico in the north and Colombia in the south will increasingly squeeze traffickers into Central America.

NEW OPENNESS TO MILITARY ASSISTANCE

¶22. (U) The Merida assistance will complement FY 2008-2010 DOD- and SOUTHCOM-funded programs providing training to, and constructing facilities for, Costa Rican police and security personnel. In fact, the Arias administration has shown a new (and welcome) receptiveness to U.S. military assistance overall. Since December 2007, U.S. personnel deploying from Joint Task Force Bravo (JTF-B) in Honduras have worked with Costa Rican civilian counterparts to provide significant medical and construction help to isolated indigenous communities in the Talamanca area in December 2007 and near the Panama border in September 2008, as well as major disaster relief after heavy flooding near Limon in November 2008. Over 1600 patients were treated in two Medical Readiness Training Exercises. Additionally, JTF-B helicopters deployed to Costa Rica to help it recover from its localized but devastating January 8 earthquake.

FOREIGN POLICY: THE UN, NEW FRIENDS AND OLD RIVALS

¶23. (SBU) Costa Rica is serving its third term (2008-2009) as a non-permanent member of the UN Security Council (UNSC). The Arias administration is using this position to further its primary international goals, including conventional disarmament, environmental protection, foreign aid reform (with more assistance directed to "responsible" middle income countries like Costa Rica), and improved UN operations. Aiming for better ties with around the Pacific Rim, Costa Rica was the first government in Central America to recognize China (in June 2007). President Arias came to Costa Rica in October 2008, making first-ever visit by a Chinese president to Central America.

¶24. (SBU) President Arias had been one of the very few Latin American leaders to speak out for self-determination in Cuba and to openly worry about loss of democratic institutions in Venezuela.

His tone softened in 2008, however, as he called more frequently for the U.S. to close Guantanamo and to ease the embargo. Arias believes these steps will help open the island politically and economically, and he hopes the new U.S. administration will consider his advice seriously. Going one step further, Arias re-established full diplomatic relations with Cuba in March 2009, citing the need for a "direct and open" dialogue with the regime.

¶25. (SBU) With Venezuela, the Arias administration asked to join Petrocaribe in 2008, in a move it defended at the time as "economic pragmatism" given high fuel prices and Venezuela's role as Costa Rica's major supplier (87 percent) of crude oil. Given the much lower oil and energy costs since, and some Costa Rican concerns about the potential "political price" associated with joining, this initiative has languished.

¶26. (SBU) Closer to home, Costa Rica-Nicaragua relations remain delicate. The government has been reluctant to criticize President Ortega openly or directly for the highly-suspect results of the November 2008 municipal elections, preferring instead to express concerns in multilateral fora such as the UN and the OAS. In contrast, Costa Rica sees more "affinities" with Panama, and has quietly improved relations with its southern neighbor. Relations with Colombia, which Costa Rica views as a mentor and ally, especially on law enforcement and security issues, are also close and improving. The Colombian Air Force dispatched one helicopter to assist with the January 2009 earthquake recovery, for example.

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